DATE: September 12, 2017

TO: Honorable Mayor and City Council

FROM: Wayne Chen, Acting Assistant Community Development Director/Housing and Neighborhood Services Manager
Randal Tsuda, Community Development Director

VIA: Daniel H. Rich, City Manager

TITLE: **Affordable Housing Priorities and Strategic Framework**

STUDY SESSION MEMO

CITY OF MOUNTAIN VIEW

PURPOSE

The purpose of this Study Session is to receive input from the City Council in order to develop a strategic framework for achieving the City's major goal to address its affordable housing needs. The City Council has discussed several affordable housing policy issues over the past year. Addressing these policy issues may involve certain trade-offs and updates to existing housing programs. Staff has developed an initial framework to address the Council's policy goals, but staff seeks direction from the Council in order to confirm the approach. Based on Council input, future items may return to the City Council for consideration. No formal action will be taken at this meeting.

BACKGROUND

Silicon Valley has long had an affordable housing challenge but the latest economic boom has created what many have called a housing crisis. Market-rate housing is unattainable for those most in need, and it has become increasingly out of reach for the middle class. This impacts renters and homeowners, service workers and tech employees, homeless individuals and families and those who assist them, and everyone in between. In Mountain View, the median sales price of a condo/townhome in July 2017 was $1.2 million, and $2.1 million for a single-family home. For apartments, the average rent for a studio is $2,074/month, $2,468/month for a 1-bedroom, $3,086/month for a 2-bedroom, and $4,130/month for a 3-bedroom. However, these rents are averages for all apartments regardless of age, amenities, or location. New apartments rent for much higher prices, where a 1-bedroom unit can range between $3,700 to $4,200/month and a 2-bedroom for $5,200 to $5,800/month.

As a result, there are more households than ever experiencing a housing burden (e.g., spending more than 30 percent of household income on housing costs), more employees being priced out of the City, more commuters stuck in heavier traffic congestion, and more homeless persons in our community.

Since 1999, the City of Mountain View has sought to respond to its diverse housing needs by implementing various policies and programs in order to facilitate the creation of affordable housing opportunities. Over the past several years, the City Council has furthered its commitment to addressing the housing needs of Mountain View's residents, workers, and employers by establishing the Council major goal to "Improve the quantity, diversity, and affordability of housing." For the Fiscal Years 2017-19 major goals work plan cycle, the City Council added an emphasis on middle-income housing and ownership opportunities to that major goal.

Key Housing Topics That Have Emerged

The City Council has deliberated upon various housing-related items over the past 12 to 18 months, including: residential developments where 100 percent of the units are affordable and funded with public resources, including City funds (e.g., "subsidized" units); market-rate residential projects that have an affordable housing obligation; developing a response to house the homeless; and Precise Plans, including North Bayshore, East Whisman, and Shenandoah.

Key housing topics, discussion points, and questions have emerged during the City Council's deliberation on these items, including:

- Desire for more housing for families.
- Desire to facilitate homeownership opportunities.
- Desire to create housing opportunities for the "missing middle."
- Desire for market-rate rental housing developers subject to the City's Rental Housing Impact Fee program to build more affordable units on-site as part of a mixed-income development instead of paying the in-lieu fee.
- Support for developing a permanent supportive housing/rapid rehousing strategy to respond to the housing needs of the homeless and of those living in vehicles.
- When a market-rate rental housing developer subject to the City's affordable housing program requirements builds the affordable units on-site as part of a mixed-income development, what is the equivalent number of Moderate-Income units that would need to be built instead of building Low-Income units?

- Consideration of using the North Bayshore Precise Plan affordable housing guidelines as a model for the East Whisman Precise Plan and possibly Citywide.

Each of these issues seeks to respond to an important housing need. However, it is important to consider them holistically in order to develop a rational, coherent, affordable housing strategy. Trade-offs may need to be made, as satisfying one policy goal may impact the ability to achieve another policy goal.

The purpose of this item is to provide the City Council staff's initial attempt to establish a framework to incorporate the various Council objectives. The remainder of the staff report provides key background information to help ground the discussion, summarizes staff's initial framework and strategy, and identifies key policy questions for Council input.

Grounding the Discussion: Key Facts and Information

This subsection of the staff report provides key facts and information to help inform the discussion and Council's deliberation of the strategy and questions asked in the Analysis section below.

Income Categories, Income Limits, and Maximum Rents and Housing Prices

It may be helpful to start the discussion by providing a reminder of who it is that affordable housing serves. "Affordable housing" is used to describe housing that is affordable to households in specified income categories, typically from the Extremely Low-Income up to the Moderate-Income categories. Additionally, "affordable housing" is deed-restricted to keep the housing cost affordable to those income categories, usually for 55 years or more. Table 1 below summarizes the various income categories as well as the maximum housing cost that a household can afford to rent or to buy without experiencing a housing burden, defined as spending no more than 30 percent of household income on housing costs. Table 1 also includes a row for Above Moderate-Income to help inform the discussion on middle-income housing and homeownership.

Table 1—Income Categories and Limits and Associated Maximum Housing Costs

Income Categories	1 Person		2 Persons		3 Persons		4 Persons	
	Income Limit	Max Rent/ Max Price	Income Limit	Max Rent/ Max Price	Income Limit	Max Rent/ Max Price	Income Limit	Max Rent/ Max Price
Extremely Low (ELI) 0% up to 30% AMI	**$23,450**	**$585/mo/ $44,400**	**$26,800**	**$670/mo/ $60,400**	**$30,150**	**$755/mo/ $76,500**	**$33,500**	**$840/mo/ $92,624**
Very Low (VLI) 30% up to 50% AMI	**$39,100**	**$980/mo/ $119,000**	**$44,650**	**$1,115/mo/ $144,500**	**$50,250**	**$1,255/mo/ $171,000**	**$55,800**	**$1,395/mo/ $197,400**
Low (LI) 50% up to 80% AMI	**$55,500**	**$1,390/mo/ $196,400**	**$63,400**	**$1,585/mo/ $233,200**	**$71,350**	**$1,785/mo/ $271,000**	**$79,250**	**$1,980/mo/ $307,800**
Median 100% AMI	**$79,300**	**$1,980/mo/ $307,800**	**$90,650**	**$2,265/mo/ $361,600**	**$101,950**	**$2,550/mo/ $415,500**	**$113,300**	**$2,835/mo/ $469,300**
Moderate (MOD) 80% up to 120% AMI	**$89,950**	**$2,250/mo/ $358,800**	**$102,800**	**$2,570/mo/ $419,300**	**$115,650**	**$2,890/mo/ $479,700**	**$128,500**	**$3,215/mo/ $541,200**
Above Moderate (MOD) 120% up to 150% AMI	**$118,950**	**$2,975/mo/ $495,700**	**$135,975**	**$3,400/mo/ $576,000**	**$152,925**	**$3,825/mo/ $656,400**	**$169,950**	**$4,250/mo/ $736,600**

* 2017 HCD State Income Limits

Note that market-rate rents are largely attainable with incomes above the median income when compared to the average rents provided in the beginning of the Background section. However, there is no household in Table 1 that can afford the rents of new, luxury apartments. The ability of Lower- and Moderate-Income households to live in Mountain View depends on their ability to find more naturally affordable housing, deed-restricted affordable housing, or a rent-stabilized unit.

Similarly, no household in Table 1 can afford to purchase a condominium, townhome, or single-family based on the most recent median sales prices. Indeed, the sales prices for ownership units are so high that it is unlikely that there are many—or any—naturally affordable homes for sale. This holds true for lower-income and Moderate-Income households, but it also holds true for Above Moderate-Income households. Even at the 150 percent AMI income level, the price of a median condominium/townhome is 60 percent higher and the price of the median single-family home is 185 percent higher than the maximum of what an above Moderate-Income household can afford to pay to own a home.

Summary of the City's Key Housing Programs

Jurisdictions need tools in order to respond to local housing needs. Mountain View has been proactive on this issue and summarized below are the City's existing tools for both fees and programs to facilitate the creation of affordable housing.

- **Housing Impact Fee—Commercial/Entertainment/Hotel/Retail:** This impact fee was adopted on December 11, 2001, and became effective on January 8, 2002. The fee is charged on commercial, entertainment, hotel, and retail uses. The fee levels are $1.37 for the first 25,000 square feet and $2.74 over 25,000 square feet. The fees are adjusted annually by the percentage change in the Consumer Price Index (CPI) for the San Jose Metropolitan Area. Additionally, the fees may be adjusted by the City Council. This fee is pooled together with the other fee programs and used to invest in subsidized affordable housing projects.

- **Housing Impact Fee—High-Tech/Industrial/Office:** This impact fee was adopted on January 8, 2002. The fee is charged on high-tech, industrial, and office uses. The fee levels are $12.79 for the first 10,000 square feet and $25.58 over 10,000 square feet. The fees are adjusted on an annual basis by the change in CPI. Additionally, the fees may be adjusted by the City Council. The last adjustment in December 2014 was an increase from $10.26 to $25 for new square feet above 25,000 and $12.50 for net square feet up to 25,000. This fee is pooled together with the other fee programs and used to invest in subsidized affordable housing projects.

- **Rental Housing Impact Fee:** This fee was adopted in 2012 and is an impact fee program charged for market rental residential developments. The fees are $17.61. The fees are adjusted on an annual basis by the change in CPI. Additionally, the fees may be adjusted by the City Council. The last adjustment was made by City Council on December 9, 2014, and was effective on February 7, 2015, which increase the fee from $10.26 to $17.00. This fee is pooled together with the other fee programs and used to invest in subsidized affordable housing projects.

- **Below-Market-Rate ("BMR") Housing Program—Rental and For-Sale:** This program was created in 1999 and initially covered both rental ("BMR rental program") and for-sale market-rate developments ("BMR for-sale program"), and has provisions for both the payment of fees and building units on-site. On the for-sale side, the BMR program requires the building of units on-site or allows for the payment of fees in lieu of providing the units. For for-sale projects that build units on-site, 10 percent of the total units must be affordable for Moderate-Income households between 80 percent and 100 percent. In practice, for-sale units have been set at 90 percent AMI. For-sale projects that meet certain thresholds can opt to pay the for-sale in-lieu fee instead of building the units on-site. The amount of the in-lieu fee is 3 percent of the closing sales price of each of the market-rate units. This fee is pooled together with the other fee programs and used to invest in subsidized affordable housing projects.

Due to the 2009 *Palmer v. City of Los Angeles* ruling, cities have not enforced existing or implemented new inclusionary rental housing programs. As a result, the City's BMR ordinance is not applied to rental housing developments. The City's Rental Housing Impact Fee program (see description above) applies to residential rental developments. The BMR program provides guidelines for market-rate rental projects if they choose to build units on-site in lieu of paying the Rental Housing Impact Fee. For projects that build units on-site, the on-site obligation has been to include 7.75 percent of the units as affordable housing. The BMR guidelines specify that the units be affordable for Low-Income households between 50 percent and 80 percent AMI. However, the practice has been to set the on-site rental units at 65 percent AMI. On-site units in-lieu of fee payment do not receive City subsidies.

- **State Density Bonus Program:** Cities are required to adopt a Density Bonus Program based on the provisions of State law. The Density Bonus Program provides additional development capacity and other concessions if a market-rate development incorporates affordable housing on-site as part of a mixed-income development. The amount of bonus depends on the income level of the affordable housing and the number of affordable units provided. The maximum amount of density bonus provide by State Law is a 35 percent increase on top of the based amount of density allowed by zoning. The State Density Bonus Law specifies the percentage of units depending on the income level, but it does not provide guidelines for mixing income categories. Additionally, State Density Bonus Law sets the Low-Income category as 60 percent AMI, whereas the City's BMR program sets it between 50 percent and 80 percent AMI, and 65 percent AMI as a matter of policy. Affordable housing yielded through the Density Bonus Program does not receive public funding and are, therefore, not publically subsidized.

- **Precise Plan Floor Area Bonus "Tier" Programs:** In addition to the State Density Bonus Program, the City has adopted local floor area "Tier" programs for the El Camino Precise Plan ("ECPP") and San Antonio Precise Plan ("SAPP"), and is scheduled to consider adoption of the North Bayshore Precise Plan ("NBPP") later this fall. The ECPP and SAPP Tier programs confer additional development capacity in exchange for public benefits (affordable housing is considered a public benefit), and the draft NBPP specifies a percentage of affordable housing units required based on the selected Tier. The Tier programs were specially developed for each Precise Plan, taking into account the unique development circumstances and economics of each geographic area.

- **Public Benefits Program:** As mentioned in the Tier program description directly above, the City implements a public benefits program as a companion to the Tier Density Bonus Program in the El Camino and San Antonio Precise Plans. Market-rate residential projects seeking more development capacity must provide public benefits. The City's public benefits program includes several items that qualify as a public benefit, including affordable housing, pedestrian and bicycle amenities, parks and open space, and other improvements or facilities. In the ECPP, affordable housing is identified as a priority item. The affordable housing obligation yielded through the public benefits program is on top of any existing, base affordable housing requirements, and may be satisfied by building the units on-site or off-site, or through payment of a fee. Affordable housing units yielded through the public benefits program do not receive public funding and are, therefore, not publically subsidized.

  Public benefits may also be required as part of the approval process for Gatekeeper projects as described directly below.

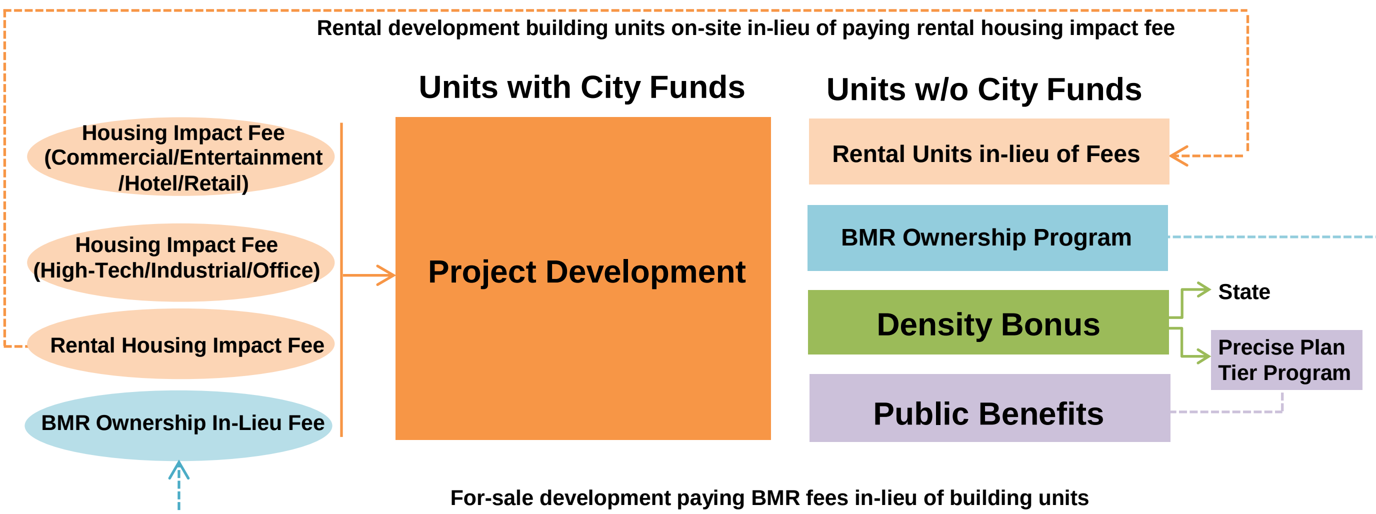
- **Streamlined NOFA/Gatekeeper Process:** The City has a unique process called the Gatekeeper process to manage certain project proposals that are submitted to the City. Gatekeeper projects are those that require a legislative action, such as a General Plan amendment or rezoning. A project applicant's request for a legislative action provides the City the opportunity to consider additional affordable housing requirements for project approval. As examples, a project applicant may be required to provide additional units above and beyond those required by the City's affordable housing programs or to build rental units on-site instead of paying the fee in the case of a rental housing development.

Note that this program summary section identifies four mechanisms that can result in the building of affordable housing on-site as part of an integrated market-rate development: (1) opting to build rental units on-site instead of paying the Rental Housing Impact Fee or providing ownership units on-site instead of paying the BMR Ownership in-lieu fee; (2) building units on-site through the State Density Bonus Program; (3) building the units on-site to satisfy public benefit obligations as yielded through the Precise Plan Tier program; and (4) building the units on-site as part of a

Gatekeeper request. It has been common practice to refer to any affordable unit built on-site as part of a market-rate development, regardless of mechanism, and sometimes even units in a 100 percent affordable housing development, as a "BMR" unit. This practice may have resulted from the application of certain parts of the BMR guidelines to each of the various programs. However, it is useful to clarify that "on-site" and "affordable" units are not synonymous with "BMR." While all of the units may be referred to as affordable, the only "true" BMR units are those developed as a result of affordable ownership units built on-site.

Chart 1 below provides an illustration of the City's various housing programs as summarized above.

Chart 1. City of Mountain View Affordable Housing Programs



Summary of the City's Affordable Housing Portfolio

As shown in Chart 1 above, the City implements a variety of mechanisms to increase the supply of affordable housing both with and without City funds. Affordable housing developments with City funds are 100 percent affordable. Conversely, residential developments that are part market-rate and part affordable units do not receive City funding. Regardless of how the affordable housing units were financed, they have deed restrictions for a period of 55 years.

The City has funded the completion of thirteen stand-alone affordable housing developments totaling 1,177 units. Additionally, three developments are under construction totaling 230 affordable units and are scheduled to be completed at the end of 2018. As a result, there will be sixteen 100 percent affordable housing developments totaling 1,408 units. Table 2 below summarizes the total number of City-subsidized units by income categories and number of bedrooms.

Table 2—Breakdown of City-Subsidized Affordable Housing Units (Completed and Under Construction)

No. of Bedrooms	ELI Units	VLI Units	LI Units	Total
Studio	176	164	28	368
1	176	391	131	698
2	41	118	53	212
3	27	59	28	114
4	8	3	5	16
Total	428	735	245	1,408

The City also has affordable housing units without City subsidies that are the result of the BMR, Density Bonus, and Public Benefits programs. As Table 3 below indicates, 117 units of unsubsidized affordable housing have been created or are under construction. Table 4 provides a breakdown of the unsubsidized units.

Table 3—Summary of Unsubsidized Affordable Housing Units (Completed and Under Construction for Rental and Ownership)

Tenure	BMR	Density Bonus	Public Benefits	Total
Rental	48	48	15	111
For-Sale	0	6	0	6
Total	48	54	15	117

Table 4—Breakdown of Unsubsidized Affordable Housing Units (Completed and Under Construction for Rental and Ownership)

No. of Bedrooms	ELI Units	VLI Units	LI Units	Total
Studio	2	6	0	8
1 BD	9	29	30	68
2 BD	5	14	17	36
3 BD	0	4	0	4
4 BD	0	1	0	1
Total	16	54	47	117

In total, the City has 1,525 deed-restricted affordable housing units through its various housing programs, as shown in Table 5 below.

Table 5—Breakdown of All Affordable Units: Subsidized and Unsubsidized (Completed and Under Construction)

No. of Bedrooms	ELI Units	VLI Units	LI Units	Total	% of Total
Studio	178	170	28	376	25%
1 BD	185	420	161	766	50%
2 BD	46	132	70	248	16%
3 BD	27	63	28	118	8%
4 BD	8	4	5	17	1%
Total	444	789	292	1,525	100%
% of Total	29%	52%	19%	100%	

<u>Percentage of Low-Income Households by Household Size Compared to Percentage of Affordable Housing by Number of Bedrooms</u>

The City of Mountain View has just over 80,000 residents and 32,500 households (2015 American Community Survey, 1-Year Survey, U.S. Census). The median household income in Mountain View is $120,000, while the average income is higher at $154,000 (2015 American Community Survey, 1-Year Estimates, U.S. Census). However, Table 6 below shows that there are nearly 10,000 Low-Income households in Mountain View, or 30 percent of all households. This means that for every affordable housing unit in the City, there are over six Low-Income households. While it is not shown in Table 6, an additional 6,800 households are considered Moderate-Income in Mountain View.

Table 6—Comparison of Percentage of Low-Income Households to Affordable Housing Units

Household Size	Number of Low-Income HH	% of Low-Income HH by HH Size	% of AH Units (from Table 5)
1	4,569	41%	25% (studios)
2	2,713	28%	50% (1 BD)
3	1,239	13%	16% (2 BD)
4	823	8%	8% (3 BD)
5-8	492	5%	1% (4 BD)
Total	9,836	100%	100%

Source: 2011-2015 ACS 5-year PUMS

Table 6 above also provides the percentage of Low-Income households by household size relative to all of the Low-Income households (third column): 41 percent of Low-Income households are 1-person households, 28 percent are 2-person households, 13 percent are 3-person household, 8 percent are 4-person households, and 1 percent are 5- to 8-person households.

It is typically assumed that a studio is for a 1-person household, a 1-bedroom unit is for a 2-person household, a 2-bedroom unit is for a 3-person household, and a 3-bedroom is for a 4-person household. When the percentage of Low-Income households by household size is compared with the percentage of units by number of bedrooms (comparing the third and fourth columns of Table 6), it suggests that there are more Low-Income 1-person households than studios (41 percent versus 25 percent), which suggests that the number of studios is disproportionately low and that more studios are needed. Conversely, the number of 1-bedroom units is disproportionately high when compared to the percentage of 2-person Low-Income households. However, 1-bedroom units may be occupied by both a 1- or 2-person household, so a 1-bedroom unit could serve different household sizes. There is also a disproportionate percentage of larger households (5 to 8 persons) relative to the percentage of large units (4-bedrooms). Conversely, the percentage of Low-Income 3- and 4-person households is proportionate with the percentage of 2- and 3-bedroom units. The grey-shaded cells in Table 6 identify where there is a disproportionate percentage of units relative to the percentage of the corresponding household size, with the caveat that, again, some households might choose to live in a larger unit (for example, a 1-person household living in a 1-bedroom unit instead of a studio).

While it is illustrative to compare the percentage of Low-Income households by different household sizes to the percentage of affordable housing units by bedroom units, it is important to note that the number of Low-Income households at every household size far exceeds the number of affordable housing units regardless of bedroom size. Significantly more affordable housing is needed at every income category and every household size.

Senior Housing

Of the 1,525 affordable housing units, nearly half (698 units) are for seniors. Although data on the number of Low-Income households by age was not available in the Census, a rough estimate suggests that over half (2,800) of the entire senior population (5,200) is Low-Income, and that approximately 30 percent of the entire Low-Income population (9,836 households as shown in Table 6) is seniors. In summary, 698 senior units are available for 2,800 Low-Income seniors, while the remaining 827 units (out of 1,525 affordable) are family units that would be available for the 7,000 nonsenior, Low-Income population. Note that even though the 827 units are considered "family" units, Low-Income seniors are eligible for those units, whereas families are not eligible for senior units.

Projected Fee Amounts Between Fiscal Year 2017-18 and Fiscal Year 2021-22

Based on the number of projects in the pipeline and assuming all are approved and are on track, it is projected that the City's four housing fee programs will generate over $78 million over the next four fiscal years, as shown in Table 7. The majority of projected fees are anticipated to come from the two housing impact fee programs and the BMR for-sale in-lieu fee. If existing projects in the pipeline adjust their scope or timing, and as new projects are submitted to the City, the fee projections would change accordingly. Note that fee projections in the out years are generally lower simply because the development pipeline is thinner the farther out one looks. As new developments come in over time, the projected amounts in Fiscal Years 2019-21 should increase.

Table 7—Projected Housing Fee Revenue Between Fiscal Year 2017-18 and Fiscal Year 2021-22

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	Total
Rental Housing Impact Fee	$6,032,811	$1,640,456	$0	$0	**$7,673,267**
BMR For-Sale In-Lieu Fee	$2,510,500	$13,192,498	$8,511,300	$2,458,200	**$26,672,498**
Housing Impact Fees (Both)	$23,855,172	$18,344,339	$126,908	$1,742,277	**$44,068,697**
Total	**$32,398,483**	**$33,177,293**	**$8,638,208**	**$4,200,477**	**$78,414,462**

<u>Average City Subsidy Per Deed-Restricted Affordable Unit</u>

As shown in Table 8 below, the City has invested approximately $49,800,000 in five, 100 percent affordable housing developments for a total of 304 units over the past six years. The developments have included a variety of different housing opportunities, including for: families, veterans, and the homeless; for extremely Low-, Very Low-, and Low-Income units; and studios, 1-BR, 2-BR, and 3-BR units. The City subsidy per unit across these developments ranges between $104,000/unit to $187,000/unit, with an overall average of $163,800 subsidy per unit.

Table 8—Recent City-Financed 100 Percent Affordable Housing Developments

PROJECT	ADDRESS	TAX CREDITS 4%/9%	UNIT TYPE	INCOME CATEGORY			PROJECT COST	PROJECT COST PER UNIT	CITY SUBSIDY COST	CITY SUBSIDY COST PER UNIT
				ELI UNITS	VLI UNITS	LI UNITS				
1585 Studios (Special Needs)	1581-85 W. El Camino Real	9%	Studio	16	10	0	$10,468,465	$387,721	$4,652,000	$172,296
			2 BD	0	0	0				
Studio 819 (Workforce)	819 N. Rengstorff Avenue	9%	Studio	13	35	0	$17,396,778	$355,036	$9,000,000	$183,673
			2 BD	0	0	0				
Evelyn (Family)	779 E. Evelyn Avenue	4%	Studio	0	1	10	$63,806,998	$550,060	$21,700,000	$187,069
			1 BD	0	5	40				
			2 BD	0	4	39				
			3 BD	0	2	13				
1701 ECR (Special Needs)	1701 W. El Camino Real	9%	Studio	37	9	16	$38,276,137	$571,286	$8,000,000	$119,403
			1 BD	2	1	1				
Shorebreeze (Family)	460 N. Shoreline Boulevard	4%	Studio	0	21	0	$25,947,645	$418,510	$6,482,931	$104,563
			1 BD	0	21	0				
			2 BD	0	8	0				

It is important to keep in mind that each development is unique and various factors must be considered in order to determine the amount of City funding for each development. However, maximizing external resources, such as 9 percent tax credits and other available sources, helps to reduce the amount of City funding per unit or to achieve more deeply affordable units. As development and land costs continue to rise, it will be especially important to leverage external resources whenever possible. Going forward, staff will develop guidelines to help maximize the City's limited housing resources—taking into account the populations served and the unique circumstances of each development—in order to enhance the City's ability to meet its affordable housing needs.

DISCUSSION

As noted in the Background section above, various questions have arisen over the past 18 months regarding the type of affordable housing that the City should be facilitating or the types of policies or programs the City may wish to explore. This section of the report provides an overview of the key policy issues, and provides several questions for the Council to consider. Input from the Council will provide direction to staff for developing an aligned and integrated affordable housing strategy that would include potential updates to existing programs, potential for developing new programs, how to prioritize limited resources, and what to convey to residential developers.

Investment Plan for City's Housing Funds

PREMISE: As indicated above, it is expected that the City's housing programs will generate over $78 million over the next four years. In order to respond most effectively to the City's goal to increase the quantity and types of affordable housing, it is important to have a framework for determining how to invest finite City housing funds.

As mentioned in the Background section, the City Council has deliberated on multiple housing topics and issues over the past year. Over the past year, the City Council:

- Expressed interest in affordable housing with larger unit sizes for lower-income families.
- Expressed interest in middle-income housing, and has incorporated middle-income housing in its Council major goal for affordable housing.
- Approved development of a strategy to respond to the housing needs of the homeless at the March 7, 2017 City Council meeting.

Staff has noted the Council's input on these various priorities and has assessed possible approaches to address these priorities. There are certain considerations and trade-offs that come with each priority. For example, larger unit sizes may mean fewer units, which reduce the number of households that may be served and could impact the financial feasibility of a project because fewer units typically mean less overall rents.

Regarding the creation of middle-income housing, the Moderate-Income category has been excluded from traditional affordable housing funding programs. Although currently there is a fairly sizeable gap between Moderate-Income rents and market rents, historically rents for Moderate-Income housing may approach or even exceed market rents depending on economic conditions. As a result, investing City dollars in Moderate-Income rental housing may not be the best use of City resources, and would take away resources for lower-income housing. Later in this staff report, alternative strategies are identified to respond to the desire for more "missing middle" housing for both rental and for-sale housing.

Regarding the Council's direction at the March 7, 2017 City Council meeting on homelessness response, staff has met with the County on several occasions to better understand the resources that Measure A, the 2016 $950 million Countywide housing bond, could bring to bear in the City of Mountain View. Staff has also met with different developers regarding potential development opportunities and target populations, and has provided information that the Council supports a housing strategy for the homeless. It is staff's understanding that permanent supportive housing and rapid rehousing units may require more development funding per unit due to deeper income targeting. Each unit will also require a sufficient amount of ongoing operating subsidies to provide services, although the operating costs are not uniform and will vary depending on the level and type of service needed. In June of this year, Santa Clara County released the results of the 2017 biennial homeless count. The overall number of homeless persons Countywide increased from 6,556 to 7,394 between 2015 and 2017. Mountain View's homeless population increased from 276 to 416 persons during the same period,.

STAFF RECOMMENDATION: Based on the above and other policy considerations, it is proposed that the following two investment strategies be implemented based on the estimate of $78 million between Fiscal Years 2017-18 and 2021-22:

- **Investment Strategy 1: Target the development of 350 to 400 affordable rental housing units at 60 percent AMI and below.** Allocate approximately $50 million to fund between 350 and 400 affordable housing units at 60 percent AMI and below. The number of units that can be developed will depend on development conditions and costs, income targets, the population served, the size of the units, and the amount of external funding leveraged. Input from the Council will help guide the type and number of affordable housing units funded. Additionally, the development of underwriting guidelines will help maximize the number of units built.

- **Investment Strategy 2: Target the development of 200 to 250 units of permanent supportive housing and/or rapid rehousing units.** Allocate up to $28 million to fund between 200 to 250 units of permanent supportive housing and/or rapid rehousing over the next four years. Achieving this target will require key partnerships with external agencies, such as, but not limited to, the County of Santa Clara and the Santa Clara Housing Authority, with the development and service provider community, and with significant external funding, in particular Measure A. The number of units that can be developed will depend on development conditions and costs, the population served, the size of the units, and the amount of external funding for development and ongoing operating subsidies that can be leveraged. Upon achievement of the target range of units, staff will reassess the need for permanent supportive/rapid rehousing units.

OTHER CONSIDERATIONS: Staff seeks to work with developers to develop a pipeline of diverse housing opportunities so that the new affordable housing supply can serve different needs and populations. This may mean that the City seeks to vary, to the extent possible, the types of projects it funds in consideration of its overall project pipeline. However, the City should also seek to be opportunistic in accessing external funding whenever available and to work with developers who may have innovative concepts or who have acquired key sites: these opportunities may drive the type of affordable housing products that the City funds.

Additionally, staff seeks to explore opportunities to fund affordable housing that may also function as a broader community asset. This may include incorporating programmatic or physical elements into an affordable housing project, such as public art, indoor community space, outdoor public space, retail or commercial uses on the ground floor, or urban gardens, just to name a few examples. The spaces and uses would be accessible by the residents of the development, but potentially also by the community as well. As our communities grow and change over time, it is important to think about the City's investments in affordable housing as physical assets that not only enhance the lives of the residents who live there, but that can also add to the sense of place in the community and that can serve multiple uses and populations.

Ultimately, this investment strategy will provide a framework for both staff and developers to consider development priorities and opportunities. However, this strategy is not meant to be a static framework that is rigid and fixed in time. As fee projections are updated on a periodic basis, as potential new affordable housing programs, policies, and resources become available, and as needs or priorities shift, there should be the flexibility to adjust these targets in order to meet the housing needs of the community in the most impactful manner.

- **Question 1: Does the City Council support the proposed investment plan for the projected funding for the four-year period from Fiscal Year 2017-18 to Fiscal Year 2021-22?**

- **Question 2: Does the City Council have any additional feedback on how to achieve a diverse affordable housing pipeline under Investment Strategy 1, taking into consideration the background information on the City's existing housing portfolio, the trade-offs that may come with funding different types of affordable housing (e.g., larger units may mean less units and vice versa), and the funding available?**

Based on Council support of the investment strategies and/or any input provided, staff will work with the development community and external partners in order to develop the appropriate affordable housing pipeline. As appropriate, staff may issue Notices of Funding Availability for one or both investment strategies.

Strategies for Affordable Rental Housing, Including Middle-Income Housing

PREMISE: Rental housing comprises the vast majority of the City's affordable housing supply. For the Fiscal Years 2017-19 cycle, the City Council expanded on its major goal for affordable housing by adding a focus on middle-income housing. There has been increasing concern in Mountain View and in the region regarding the lack of housing for the "missing middle." For rental housing, middle-income housing is typically considered to be Moderate-Income housing (i.e., 80 percent to 120 percent AMI). In recent years, market rents have risen significantly and have become increasingly out of reach for middle-income households. The rental housing market has built primarily higher-end residential products in the City, with rents for new 1-bedroom apartments at up to $4,200/month.

Conversely, public funding for affordable housing have primarily been used for housing at the 60 percent AMI level or lower due to the requirements of the Low-Income housing tax credit program. Additionally, despite the relatively large gap currently between market rents and Moderate-Income rents, rents for Moderate-Income housing have historically been closer to or even higher than market rate rents. Therefore, public funding has traditionally targeted towards more deeply affordable housing.

One question that the City Council has asked on several occasions over the past year is if a developer can meet the affordable housing obligation for Low-Income units by providing Moderate-Income units instead. Staff has conducted some preliminary assessment of how to determine "equivalency" between income categories, but additional work remains. Additionally, there may be other approaches to equivalency that can help achieve the goal of creating middle-income housing.

POTENTIAL RESPONSES: Staff has assessed some initial approaches that may enhance the City's ability to create more affordable rental housing, as well as support the Council's goal of facilitating the development of middle-income housing. Below is a summary of the key recommendations:

Table 9—Strategies for Affordable Rental Housing, Including Middle-Income Housing

Strategy	Considerations
1. Middle-income rental housing should be achieved without the use of City funding.	— The City's housing funds should continue to be allocated for affordable housing targeted at the 60 percent AMI level and lower, as discussed in the Investment Plan section above. This will maximize the City's ability to leverage external funding sources and to fund more deeply affordable housing.
2. For on-site rental units in lieu of paying the Rental Housing Impact Fee, require that a range of income levels within the Low-Income Category be provided.	— The current BMR program has provided guidelines that rental housing be for Low-Income housing between 50 percent and 80 percent, but it does not specify that a range of units be required. In practice, rents are set at 65 percent AMI, which limits the range of Low-Income households that could be served.
3. For on-site rental units in lieu of paying the Rental Housing Impact Fee, include Moderate-Income housing at 80 percent to 120 percent AMI: a. <u>Option 1</u>: Require that a range of income levels within the Low- and Moderate-Income categories be provided.	— The current BMR program has provided guidelines that rental housing be for Low-Income households. Moderate-Income rental housing is not currently identified as an income category. The City Council has expressed a desire for more middle-income housing. Including the Moderate-Income category for rental units in lieu of fees can support the Council goal. — Option 1: Would provide a greater range of income levels but may take more up-front work to determine the appropriate mix of income levels. Option 1 would be achieved in conjunction with Strategy 2 directly above.

Strategy	Considerations
b. Option 2: Establish an "equivalency" for converting some or all of the 65 percent AMI units into Moderate-Income units at 120 percent AMI.	– Option 2: The Council has inquired about equivalency over the past year. An equivalency methodology would need to be determined. Option 2 may be simpler to implement but would provide a more limited range of incomes than under Option 1.
4. Establish a Council policy encouraging the provision of on-site units instead of payment of the Rental Housing Impact fees: a. Requirement: Require provision of units to meet the affordable housing obligation. b. Prioritization: For non-Gatekeeper projects, work with the developers to explore provision of units to meet the affordable housing obligation instead of paying the Rental Housing Impact Fee.	– Gatekeeper requests involve a legislative action to change a site's General Plan designation or zoning. This process provides the opportunity for the City and project applicants to work together to provide affordable rental units on-site. – Due to *Palmer v. the City of Los Angeles*, cities have not implemented/enforced inclusionary housing programs. For non-Gatekeeper projects, the City can request but not require that developers include units on-site in order to meet their affordable housing obligations.
5. Explore increasing the 10 percent affordable housing requirement in the BMR program.	– BMR programs in other jurisdictions often include a higher percentage requirement for affordable housing, such as 15 percent or 20 percent. Seven jurisdictions in Santa Clara County and nine jurisdictions in San Mateo County have up to a 15 percent or 20 percent BMR requirement. – A development proposal has already been submitted that includes 20 percent of the units as affordable housing without any City funding.

Strategy	Considerations
6. Update the Rental Housing Impact Fee	— The current Rental Housing Impact Fee translates into 7.75 percent of a market-rate project's units as affordable, should the developer choose to meet its affordable housing obligation by building units instead of paying the fee. Increasing the amount of the Rental Housing Impact Fee could increase the resources available to invest in more affordable housing units, or, if the developer chooses to build on-site, result in more on-site rental units. Adjusting the fee level may also incentivize developers to provide the units instead of paying the fee.
7. Update the City's R3 zoning to a form-based zoning standard.	— The City's current R3 zoning standards are outdated and lead primarily to lower-density townhome/rowhouse products. — Updating the R3 zoning may facilitate more residential product types and units that are more consistent with the intent of the R3 zoning. — An updated R3 zoning could lead directly to more sites that are feasible for affordable housing, or it could indirectly lead to more naturally affordable housing by adding more housing supply or lower cost market-rate housing. This may apply to both rental and for-sale housing.

- **Question 3: In order to facilitate middle-income rental housing, does the City Council support the addition of the Moderate-Income category when units are built on-site in market-rate developments in lieu of paying the Rental Housing Impact Fee? If so, does the Council support Strategy No. 3a (establishing a range of income levels) or 3b (equivalency methodology)?**

- **Question 4: Does the Council support the other strategies identified in Table 9 to enhance the City's affordable rental housing program? Are there other tools or mechanisms that the Council recommends that staff explore?**

Strategies for Homeownership

PREMISE: For the Fiscal Years 2017-19 major goals cycle, the City Council expanded on its major goal for affordable housing by adding a focus on homeownership. Of the approximately 35,000 housing units in Mountain View, approximately 60 percent (19,000 units) are rental units and 40 percent (16,000 units) are ownership units. In most cities, there is more ownership housing than rental housing. However, the average sales price of a single-family home in Mountain View is $2.1 million and $1.3 million for a condo/ townhome, making homeownership significantly out of reach for many households. Additionally, the housing market continues to prioritize rental residential products over homeownership products.

Public homeownership programs typically target Low- and Moderate-Income households. While some public homebuyer programs have also included the very Low-Income category (i.e., 30 percent to 50 percent AMI), there is some consensus that homeownership programs at that income category, while desirable, is difficult to sustain because the incomes are too low to sustain the costs of homeownership over the long term or too costly to subsidize. Conversely, due to extraordinarily high housing costs, homeownership is increasingly out of reach for even above Moderate-Income households.

In general, there are three main types of homeownership programs: down payment assistance, subsidized housing, and inclusionary housing. As the name suggests, down payment assistance programs help homebuyers with the down payment on a house but the home is purchased at market price. Subsidized housing programs use public subsidies to lower the sales price of the house itself. Finally, in cities with an inclusionary housing program, units are built by developers at below market prices in order to satisfy their affordable housing obligation.

Although there are three main types of homeownership programs, there are many different variations among them. The type of program a jurisdiction implements and how it is designed depend on the priorities of the jurisdictions that implement them. The City of Mountain View has sought to facilitate homeownership through its Below-Market-Rate Housing Program, which was created in 1999. Through this inclusionary program, developers of market-rate ownership housing must include 10 percent of total units as affordable or pay an in-lieu fee. There is no City subsidy in the BMR program. The owner of a BMR ownership unit must sell to another income-qualified buyer.

In the past year, the City Council has expressed interest in exploring equity share programs and community land trusts as tools to facilitate homeownership. In exploring these opportunities further, it may be helpful to establish some shared concepts to ground the conversation, as the terms used to describe various homeownership approaches may mean different things to different people.

"Equity" share programs generally refer to programs that provide the ability of an income-qualified homeowner to capture a portion of the appreciation of a home's value by allowing the owner of an affordable home to sell that home at a higher price. In this regard, equity share programs are really "appreciation" share programs. Depending on how the program is designed, the home could be allowed to be sold above the original purchase price up to the market price. The higher the allowable sales price, the greater the amount of appreciation that the homeowner can gain and the less that is shared with the agency that implements the homeownership program. However, if the home is allowed to be sold for higher than the original purchase price, that means that home is likely no longer affordable to a household at the same income level as the original homeowner. In this situation, in order to preserve the affordability of the home, subsidies would be needed to bring the price of the home back down to an affordable level, and the higher the allowable resale value, the greater the subsidy amount needed to preserve the affordability.

Because the City's BMR program restricts the resale price of an affordable home to an income-qualified buyer or lower, the homeowner has limited opportunity to benefit from the appreciation of housing values. As a result, the policy goal of the City's BMR for-sale program has been to preserve the affordability of the BMR home. However, it should be noted that while housing "appreciation" is not a feature of the City's BMR program, the homeowner still gains "equity" simply by paying down their mortgage. The equity gained by the homeowner by amortizing their mortgage does not need to be shared with the City. If the City Council wishes to modify the BMR program to allow homeowners to benefit from appreciation as a wealth-building tool, but would also like to preserve the affordability of the unit, that funding may come at the expense of developing subsidized rental housing, unless another source of funding is available.

As mentioned, besides equity share, community land trusts ("CLT") have been identified as a potential mechanism to facilitate homeownership. CLTs are typically nonprofit organizations that purchase land in order to build and to preserve the affordability of homeownership opportunities, usually in perpetuity. Funding could come from the private, public, or philanthropic sectors for the purchase of land, the development or acquisition of housing, and/or providing homebuyer programs. Note that if the primary goals of CLTs are to create and to preserve homeownership opportunities, other mechanisms may also be able accomplish this goal, such as using public lands or requiring permanent affordability in the BMR program.

Finally, the City Council has expressed the desire to see more ownership housing being built, as well as more affordable ownership units being built through the BMR program instead of the developer's paying the in-lieu fee. In the Potential Responses section below, there are several recommendations that seek to address these two goals.

POTENTIAL RESPONSES: The following recommendations are based on the City Council's desire to see more ownership housing being built and the various issues identified in the section immediately above. It includes recommendations to modify the City's BMR ownership program (Table 10) and other potential actions (Table 11).

Table 10—Proposed Modifications to the BMR Ownership Program

Strategy	Considerations
1. Maintain the current BMR priority to preserve the affordability of the home, or modify to allow the homeowner to build wealth through housing appreciation.	— Depends on Council's input about the goal of the BMR Ownership program. — If the Council wishes to maintain the policy goal of preserving the affordability of the unit, cleanup existing language in the BMR program to support that policy direction, such as extending the term of the affordability restriction or clarifying that the term of the affordability resets with a refinance or change of title. — If the Council wishes to modify the BMR program to provide for "appreciation" share, staff will conduct further analysis and return to the Council with potential modifications for consideration. If this is Council's direction, it would be helpful if Council also provides input on whether staff should explore how to preserve the affordability of the unit in the context of appreciation share.
2. Expand the range for Moderate-Income HH to 80 percent to 120 percent.	— The range for Moderate-Income in the BMR program is currently 80 percent to 100 percent AMI. Traditionally, the range for Moderate-Income is 80 percent to 120 percent AMI.

Strategy	Considerations
3. Include other income categories, such as Above Moderate-Income and Low-Income.	— Table 1 in the Background section demonstrates that market for-sale prices may be significantly above the incomes of Above Moderate-Income households. Adding the Above Moderate-Income category can help address the missing middle for homeownership. — If Low-Income is added as an income category, consider the upper range such as 70 percent to 80 percent AMI. While adding this income category provides would provide homeownership opportunities for Low-Income households, the
4. Provide a range of units in the Moderate-Income category and other income categories if included.	— The current practice is to price BMR for-sale units at 90 percent AMI, the midpoint between 80 percent and 100 percent AMI. — It is recommended to affirm the policy of requiring a range of income levels within the Moderate-Income category. — If additional income categories are added per Strategy 3 directly above, it is a recommended that a range of income levels within the new income categories be required.
5. a. Increase the development size and the sales price floor when a for-sale development is allowed to pay fees in lieu of providing units. b. Do not allow in-lieu fees to be paid.	— The City Council has expressed a desire to see more units built instead of in-lieu fees paid. — Current thresholds when development is allowed to pay fees in lieu of providing units is 10 or more units and $660,000, adjusted annually. — By increasing current thresholds, more developments will be required to build the units. — By prohibiting in-lieu fees to be paid, developments will need to include the units.

Strategy	Considerations
6. Consider modifying the BMR Ownership In-Lieu Fee to be based on a per square footage calculation.	— The current in-lieu fee is based on 3 percent of the actual sales price of the units. Basing the fee on the sales price requires additional administration and coordination with the County. — It is possible that a per square foot methodology may help facilitate ownership housing to be built, as well as lead to more compact units, thereby increasing the supply of ownership opportunities. However, additional analyses would need to be conducted to confirm this.

- **Question 5a: Does the Council wish to continue to prioritize the preservation of the affordable ownership unit through strict resell restrictions (but still allow the homeowner to keep all of the equity gained by paying down the mortgage) or would the Council wish to modify the BMR program to allow homeowners to benefit from housing appreciation?**

- **Question 5b: If the Council wishes to allow a BMR unit to be sold at a higher price and for the homeowners to benefit from appreciation, does the Council wish to preserve the affordability of the unit by using City funds to subsidize the unit?**

In addition to the potential modifications to the BMR program, Table 11 identifies additional strategies that may facilitate homeownership.

Table 11— Other Strategies to Facilitate Homeownership

Strategy	Considerations
1. Work with external partners to explore lending program.	— There are existing and emerging homebuyer products in the private and nonprofit sectors. — Partnerships with external organizations can provide other avenues to facilitate homeownership. — The solutions do not need to all come from the public sector.

Strategy	Considerations
2. Initiate the major work plan goal regarding analyzing constraints to condo mapping and potential opportunities to facilitate developer willingness to condo map rental projects.	— This item is on the Department's work plan for the Fiscal Years 2017-19 Council major goals.
3. Continue to research and explore additional opportunities to facilitate homeownership.	— This item is on the Department's work plan for the Fiscal Years 2017-19 Council major goal. — Further assessment of CLTs would be considered under this strategy if Council wishes to continue exploration of this mechanism. If so, assessment of CLTs would be conducted in the context of the Council's input regarding whether it wishes to preserve the affordability of the unit or to allow the ability of homeowners to share in the appreciation of housing value.

- **Question 5c: Does the Council support the other strategies identified in Tables 10 and 11 in order to support the City Council's goal to facilitate homeownership? Are there other tools or mechanisms that the Council recommends that staff explore?**

<u>North Bayshore as a Template for Affordable Housing Strategy</u>

PREMISE: On May 16, 2017, the City Council approved the North Bayshore Affordable Housing Guidelines (NBAHG), which accompanies the North Bayshore Precise Plan (NBPP) in order to implement the affordable housing policies of the NBPP. Subsequent to that meeting, there has been the question of whether the NBPP can serve as a template for affordable housing policies other Precise Plans or Citywide.

The NBPP contains several key components, such as the Bonus FAR program, land dedication, requirements for a mix of affordability levels, including for middle-income housing, provisions for both rental and ownership housing, the size of the units, and a parking plan.

Additionally, the NBPP was developed by taking into account the unique development opportunities and characteristics of the area. For example, the NBPP allows for residential developments up to 15 stories in certain parts of the Precise Plan in order to facilitate the Bonus FAR program and the different affordability income levels. However, 15 stories is not feasible in every part of the City, which may impact the ability to implement the NBPP affordable housing program Citywide. At the same time, the City Council may provide input for staff to study the applicability of the North Bayshore concepts without getting into the particulars, in order to assess the feasibility of some or all of the affordable housing strategies in North Bayshore to all or certain parts of the City. For example, the Council could direct staff to study the applicability of the Bonus FAR concept for current and future Precise Plans, without needing to get into the details about the particulars of building heights. Finally, because the major areas of growth in the City are in existing and future Precise Plans, it is recommended that the City Council limit consideration of this topic to Precise Plans as opposed to Citywide.

- **Question 6: Does the Council wish to consider using the NBPP as a template for Precise Plans that will be developed (such as East Whisman and Shenandoah), for existing Precise Plans (such as El Camino Real and San Antonio), or both future and existing Precise Plans, taking into consideration the uniqueness of each Precise Plan and the appropriateness of the various NBPP elements?**

SUMMARY OF QUESTIONS

- Question 1: Does the City Council support the proposed investment plan for the projected funding for the four-year period from Fiscal Year 2017-18 to Fiscal Year 2021-22?

- Question 2: Does the City Council have any additional feedback on how to achieve a diverse affordable housing pipeline under Investment Strategy 1, taking into consideration the background information on the City's existing housing portfolio, the trade-offs that may come with funding different types of affordable housing (e.g., larger units may mean less units and vice versa), and the funding available?

- Question 3: In order to facilitate middle-income rental housing, does the City Council support the addition of the Moderate-Income category when units are built on-site in market-rate developments in lieu of paying the Rental Housing Impact Fee? If so, does the Council support Strategy 3a (establishing a range of income levels) or 3b (equivalency methodology)?

- Question 4: Does the Council support the other strategies identified in Table 9 to enhance the City's affordable rental housing program? Are there other tools or mechanisms that the Council recommends that staff explore?

- Question 5:

  a. Does the Council wish to continue to prioritize the preservation of the affordable ownership unit through strict resell restrictions (but still allow the homeowner to keep all of the equity gained by paying down the mortgage) or would the Council wish to modify the BMR program to allow homeowners to benefit from housing appreciation?

  b. If the Council wishes to allow a BMR unit to be sold at a higher price and for the homeowners to benefit from appreciation, does the Council wish to preserve the affordability of the unit by using City funds to subsidize the unit?

  c. Does the Council support the other strategies identified in Tables 10 and 11 in order to support the City Council's goal to facilitate homeownership? Are there other tools or mechanisms that the Council recommends that staff explore?

- Question 6: Does the Council wish to consider using the NBPP as a template for Precise Plans that will be developed (such as East Whisman and Shenandoah), for existing Precise Plans (such as El Camino Real and San Antonio), or both future and existing Precise Plans, taking into consideration the uniqueness of each Precise Plan and the appropriateness of the various NBPP elements?

RECOMMENDATION

It is recommended that the City Council provide input on the questions provided in this staff report, and additional input as appropriate and relevant to the issue of affordable housing priorities and developing a coherent, overall affordable housing strategy.

NEXT STEPS

Based on the City Council's input on the various discussion topics and questions, staff will develop a work plan to study or implement applicable items. Depending on the work products, certain items may come back to the City Council for further consideration or adoption.

PUBLIC NOTICING – Public noticing was not required for this item.

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